



TRANSWESTERN

MINNEAPOLIS - SAINT PAUL OFFICE MARKET

Q3 2023



TRENDLINES

	Q3 2023	Q3 2022	ONE-YEAR TREND	THREE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	3.2	2.6	↑	3.5	↑
NET ABSORPTION (THOUSANDS SF)	(270.3)	(221.9)	↓	(327.5)	↓
OVERALL VACANCY RATE	21.4%	21.3%	↑	20.3%	↑
OVERALL VACANT SF (MSF)	18.8	19.4	↓	17.9	↑
UNDER CONSTRUCTION (MSF)	0.7	0.9	↓	1.0	↓
AVERAGE ASKING RENT, FULL SERVICE GROSS (FSG), PER SF	\$26.90	\$26.36	↑	\$25.79	↑
SALES VOLUME (MILLIONS)	\$266.4	\$314.3	↓	\$247.2	↓

Source: Bureau of Labor Statistics, MNCAR, Real Capital Analytics, Transwestern

OFFICE ACTIVITY STAYS CHALLENGED

Minneapolis-Saint Paul's (MSP) office market continues to see users shed space as more tenants put space up for sublease. Q3 2023 overall negative net absorption totaled 270,325 square feet (SF); an increase from last quarter's total negative net absorption of 177,010 SF and higher than the previous year's total negative net absorption of 221,876 SF. While there was a direct negative net absorption of 412,581 SF, sublease space recorded a positive net absorption of 142,256 SF. Leasing activity for Q3 recorded 319 transactions, totaling 1.43 million SF. Notable leases included Thompson Reuters which leased 308,070 SF at Boulder Lakes in Eagan and Forward Edge/Lockheed leased 68,308 at Midway Innovation Center in Saint Paul.

Asking rents have increased at a steady pace year-over-year. Asking rent for Q3 2023 was \$26.90 PSF full service gross (FSG); an increase of 2.1% from Q3 2022 and an 1.4% increase from last quarter. Rent growth in Class A spaces continued to increase at a faster rate, with growth of over 10% in the CBD and over 6% in the suburbs.

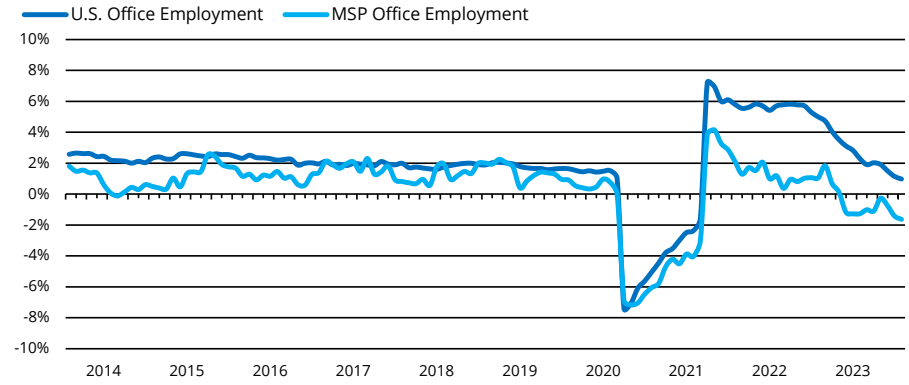


ECONOMY

Job Growth Continues to Be Robust

- MSP's unemployment rate continued to increase from its low point in mid-2022. The August unemployment rate was 3.2%, a year-over-year increase of 50 basis points. MSP's unemployment continues to be lower than the national rate at 3.8%.
- Total employment in the MSP increased by 1.8% year-over-year, or 35,260 additional jobs. Employment growth continues to be resilient even as interest rates have increased over the last year as the Federal Reserve moved to reduce inflation.
- The number of office-using jobs in the MSP region decreased by 1.6% year-over-year in August. The Professional/Business Services industry had the largest decline, with a net loss of 3,900 jobs followed by the Finance/Insurance industry with a net loss of 3,200 jobs.

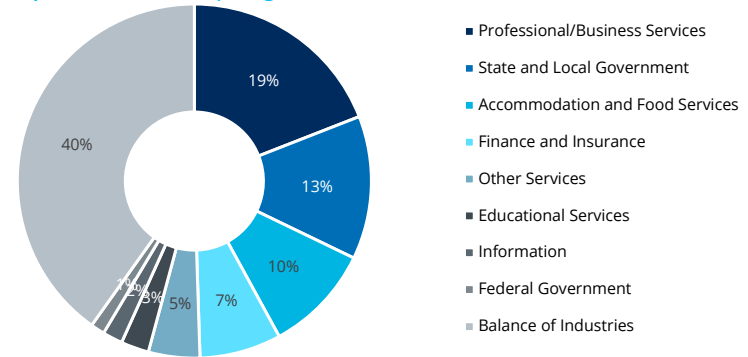
Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

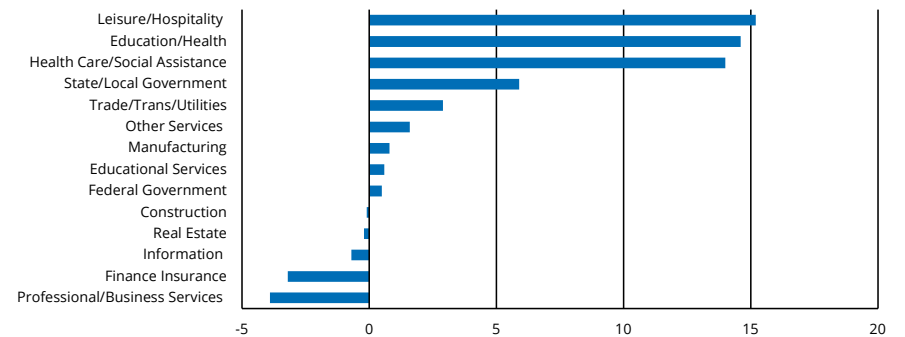
Minneapolis - Saint Paul | August 2023



Source: Bureau of Labor Statistics, Transwestern

YEAR-OVER-YEAR CHANGE IN JOBS BY INDUSTRY

Minneapolis-Saint Paul | August 2023



Source: Bureau of Labor Statistics, Transwestern

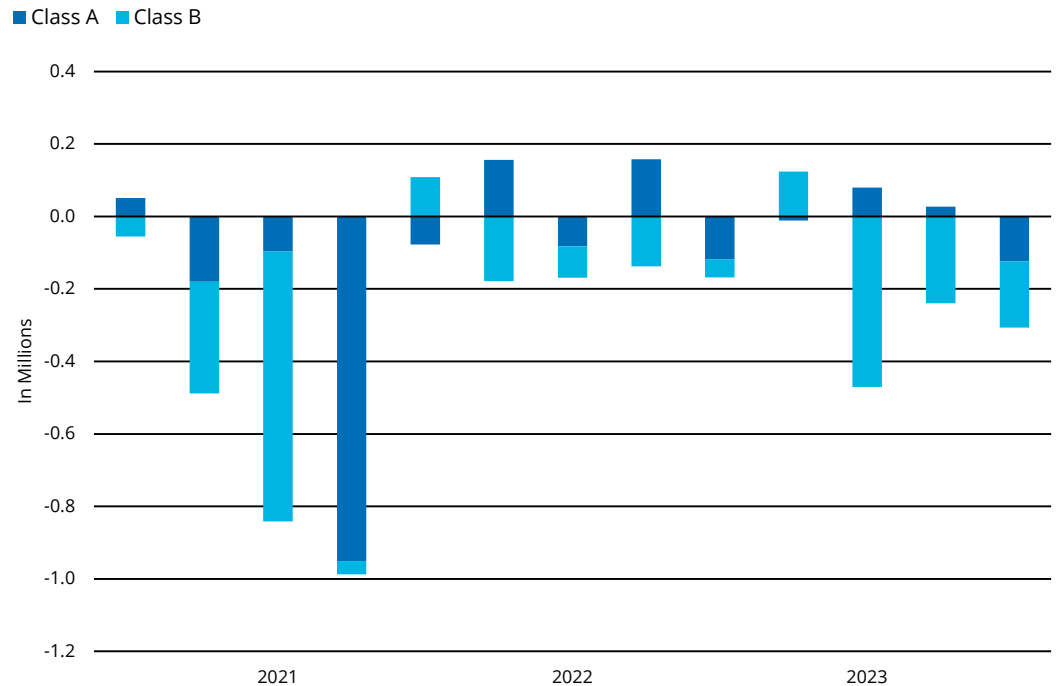


NET ABSORPTION

Net Absorption Decreased

- Q3 2023 overall net absorption was negative 270,325 SF, higher than Q3 2022's total of negative 221,876 SF. Minneapolis CBD markets posted a negative net absorption of 107,735 SF and the suburban markets posted a negative net absorption of 177,491 SF. Saint Paul CBD posted a positive net absorption of 14,901 SF.
- Net absorption continues to decrease as tenants continue to place large blocks of space on the market. One example is Best Buy placing a portion of their headquarters space on the market, adding 600,000 SF to overall availability.
- Class A and Class B posted negative net absorption in Q3. For Class A space this was the first quarter of negative absorption since Q4 2022. Class B posted its third consecutive quarter of negative net absorption, but the total has decreased from a low of negative 470,684 SF in Q1 2023 to negative 182,367 SF for Q3 2023.
- The amount of available sublease space declined for the first time since Q2 2021 due to approximately 475,000 SF being subleased.
- The three largest deals signed in the third quarter were subleases. Thomson Reuters subleased 308,070 SF at Boulder Lakes in Eagan, Forward Edge/Lockheed subleased 68,308 SF, and NetSPI subleased 60,000 SF at Steelman Exchange in North Loop.

NET ABSORPTION BY CLASS



Source: MNCAR, Transwestern

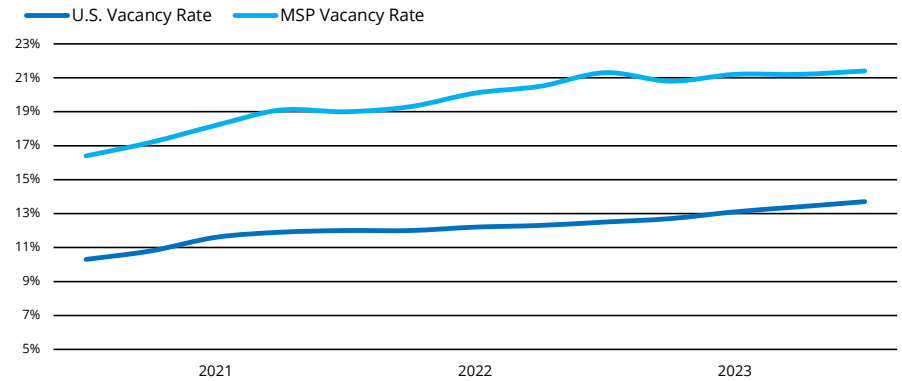


VACANCY

Vacancy Rate Increases

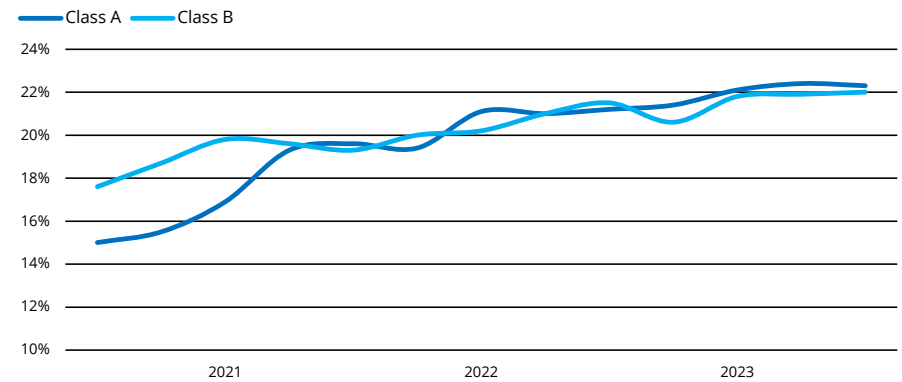
- Overall market vacancy in the MSP market for Q3 2023 was 21.4%; vacancy increased by 20 basis points from last quarter. Year-over-year (YoY) vacancy increased by 10 basis points.
- Minneapolis CBD vacancy rates were 27.6% for the quarter, an increase of 40 basis points from the previous quarter, and a YoY decrease of 40 basis points.
- The Suburban submarkets vacancy rate totaled 18.1% for the quarter, an increase of 40 basis points from the previous quarter and a 30 basis point increase YoY.
- Class-A vacancy increased by 140 basis points YoY, landing at 22.3%. Class-B vacancy, at 22.0%, increased by 80 basis points YoY.
- Vacancy rates would have increased further had it not been for nearly 5.5 million SF of inventory being taken out of the market YoY. Office inventory in the market decreased by nearly 6% YoY and the Minneapolis CBD's office inventory decreased by 11% YoY.

OVERALL VACANCY RATE



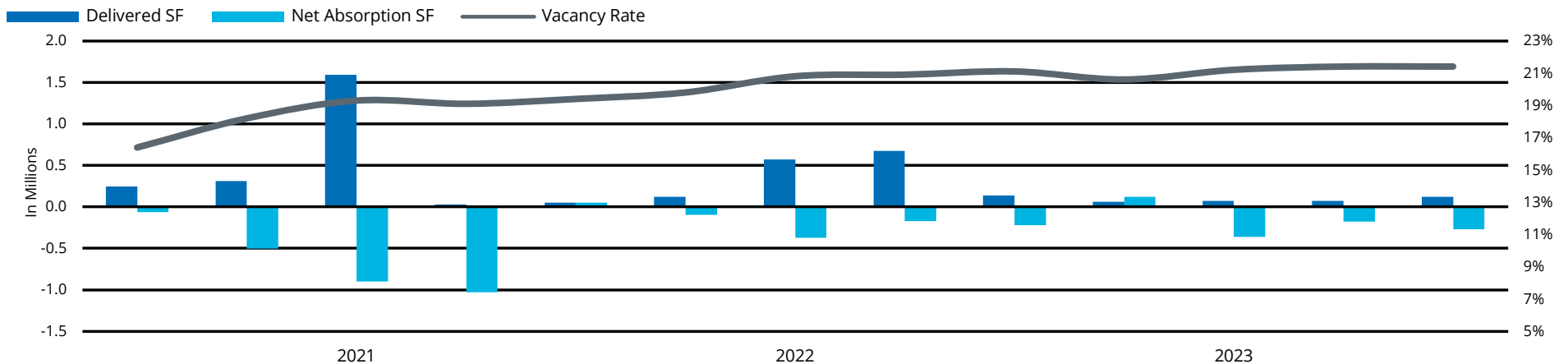
Source: MNCAR, Transwestern

OVERALL VACANCY RATE BY CLASS



Source: MNCAR, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: MNCAR, Transwestern

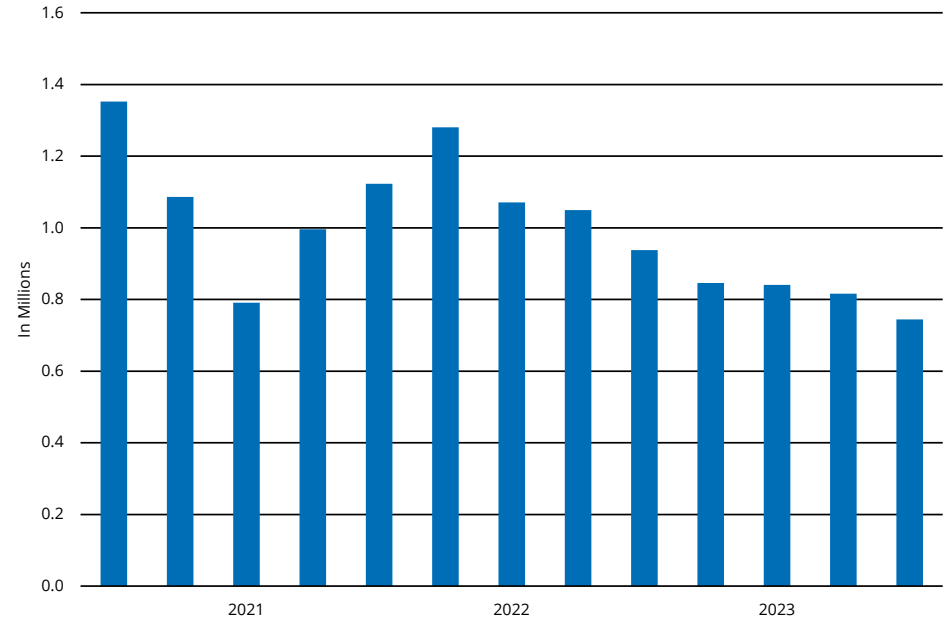


UNDER CONSTRUCTION

Construction Has Slowed Down

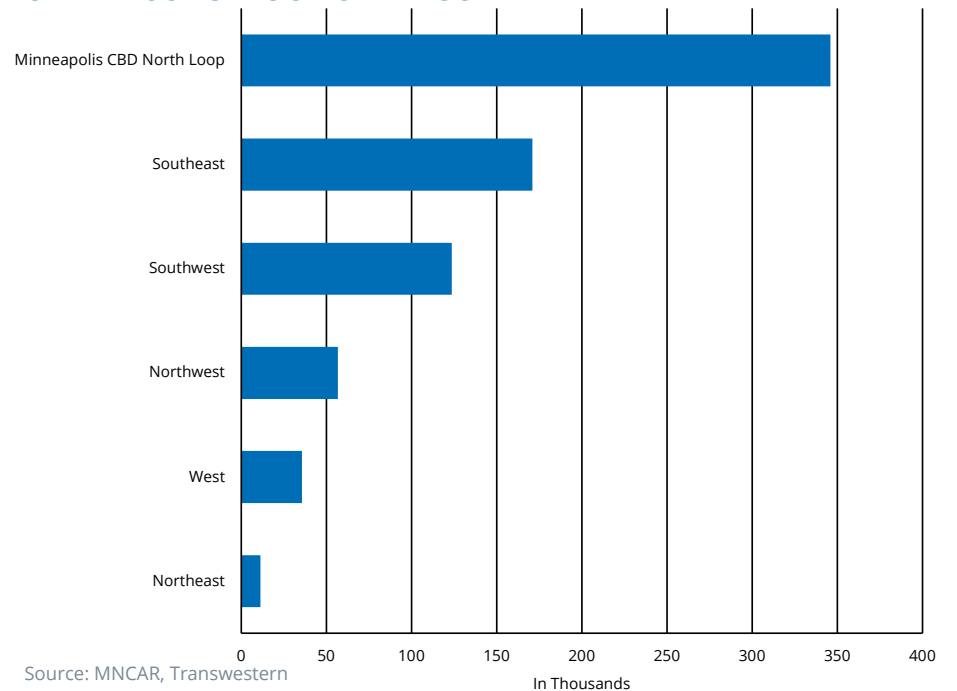
- Office construction continues to be low as 744,149 SF of space is currently under construction in the MSP region. Most office space that is under construction is medical office space.
- The North Loop submarket led overall with 345,927 SF under construction, followed by the Southeast submarket with 170,902 SF.
- Market-wide, there was a 21% decrease in SF under construction compared to last year.
- Net deliveries totaled 122,404 SF in Q3, a 65% increase from the previous quarter when deliveries totaled 74,376 SF. YoY, net deliveries decreased by 11%.

UNDER CONSTRUCTION



Source: MNCAR, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



Source: MNCAR, Transwestern

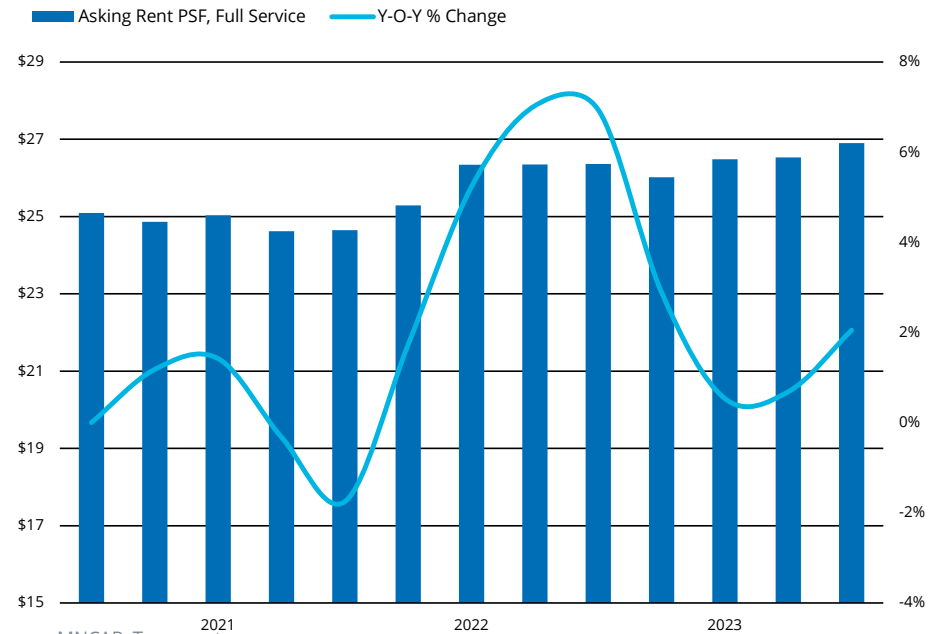


LEASE RATES

Rents Continue to Increase

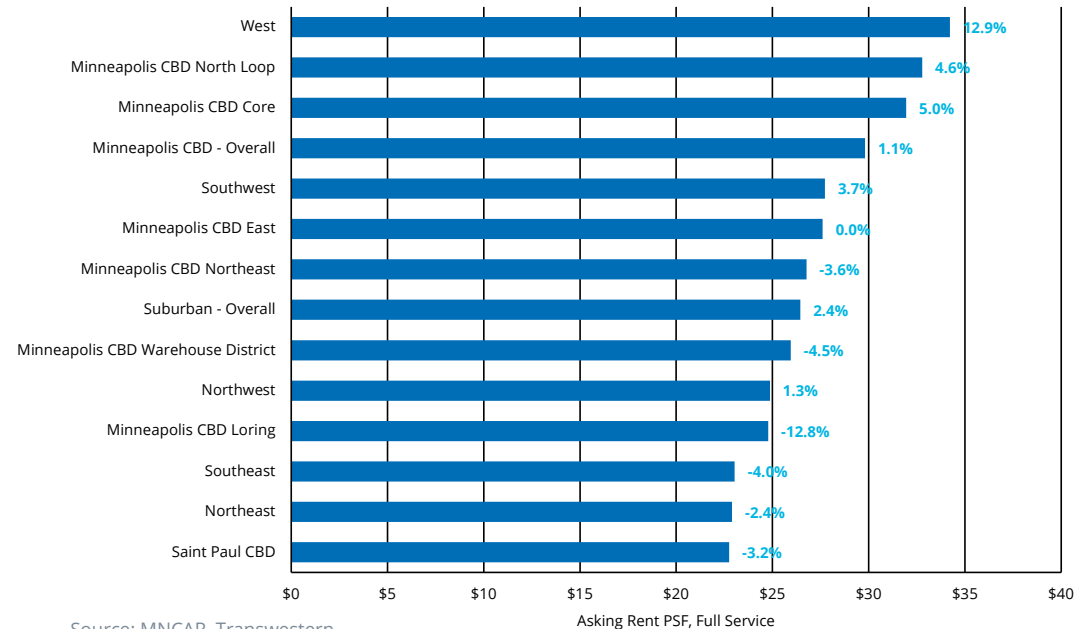
- Average asking rents increased by 2.0% from the previous year to \$26.90/PSF full service gross (FSG) led by the increases for Class A space.
- Average asking rent increased by 1.4% from the previous quarter.
- Year-over-year, rent increased the most in the West submarket, increasing by 13%. The Minneapolis CBD-Core submarket increased by 5.0% highlighting the increased demand for space in these submarkets.
- Minneapolis CBD submarket rents increased by 1.1% from the previous year and Suburban submarket rents increased by 2.4% during the same period.
- Class A asking rents increased across all submarkets year-over-year, increasing 10.2% to \$37.08/PSF full service gross in the Minneapolis CBD and 6.5% to \$35.66/PSF in the suburban submarket.

LEASE RATES - MSP



Source: MNCAR, Transwestern

LEASE RATES BY SUBMARKET AND Y-O-Y GROWTH



Source: MNCAR, Transwestern

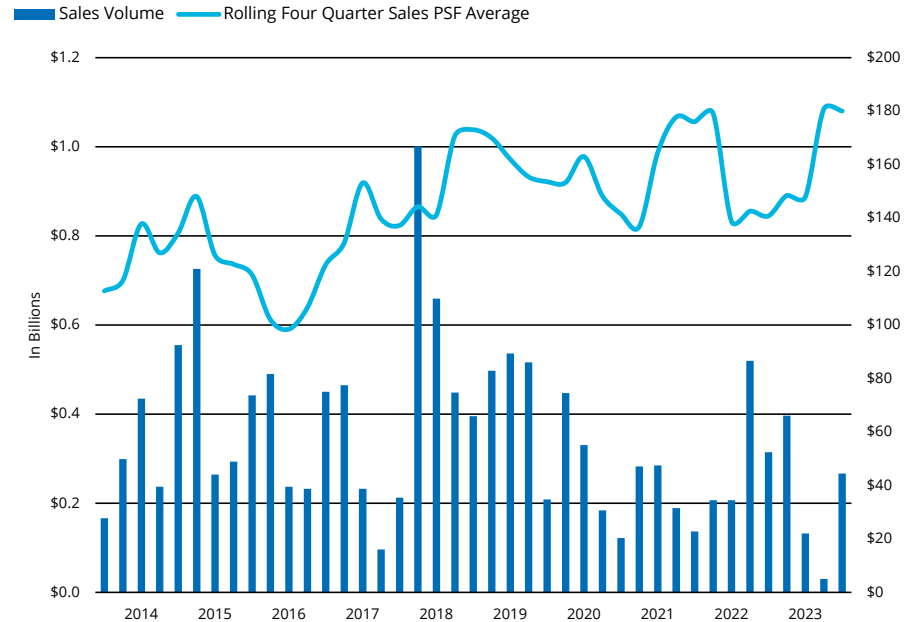


SALES

Sales Continue To Struggle

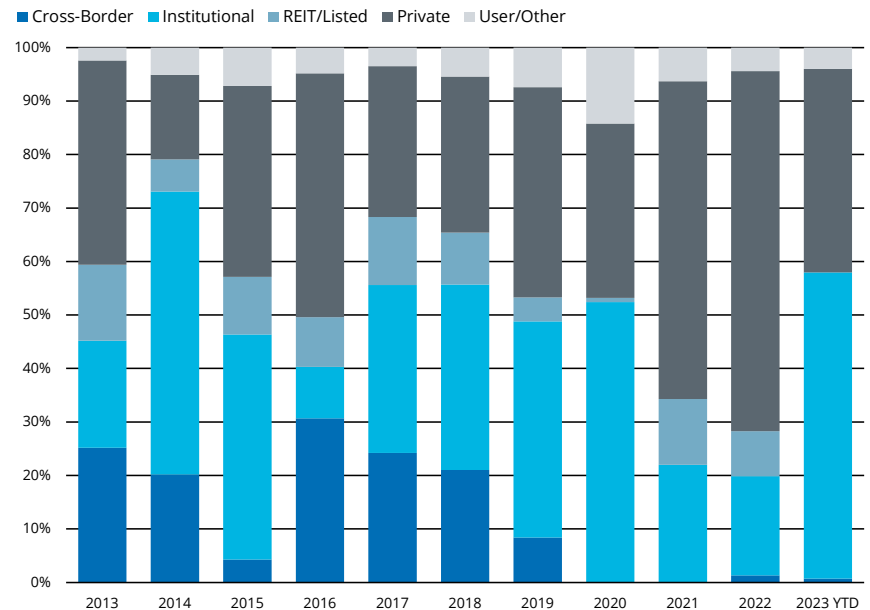
- Preliminary reported sales volume totaled \$266.4 million in Q3, a 15.2% decrease from the previous year. A major sale that occurred at the beginning of Q3 was The RBC Gateway. The property sold for \$225 million, the largest office transaction for 2023 year-to-date.
- Sales volume continues to be challenged due to several factors including high interest rates, decline in demand for office space, and lack of dry powder.
- 57% of buyer capital came from institutional buyers in Q3, with no transactions made by Cross-border or REITs. 38% of buyer capital were from private sources.
- While interest rate increases are predicted to slow, the lack of demand for office space and reduced price per SF compared to historical averages will continue to be challenging for sales into the next quarter.

SALES VOLUME



Source: CoStar, Transwestern


BUYER CAPITAL COMPOSITION



Source: Real Capital Analytics, Transwestern



NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
THOMSON REUTERS	2900 Ames Crossing Rd	Southeast	Sublease	308,070
FORWARD EDGE/LOCKHEED	2340 Energy Park Dr	Northeast	Sublease	68,308
NETSPI	241 5th Ave N	Minneapolis CBD - North Loop	Sublease	60,000
POLARIS	7225 Northland Dr N	Northwest	New	54,000
REDPATH 	400 Robert St N	Saint Paul CBD	New	33,690

NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
250 NICOLLET MALL	Mpls CBD - Core	\$225,000,000	532,000	\$423	Spear Street Capital	United Properties Investment
500 BIELENBERG DR	Southeast	\$17,500,000	43,143	\$51	Eden Ventures	Intrepid Holdings, LLP
900 189TH AVE NE	Northeast	\$15,500,000	63,671	\$243	Nexus Family Healing	Certus Financial
1687 WOODLANE DR	Southeast	\$9,800,000	32,711	\$300	MMPF III Woodbury MN LLC	Obgyn Consultants PLLC
2101 WOODWINDS DR	Southeast	\$8,400,000	22,000	\$382	Reproductive Medicine & Infertility Associates	Reproductive Medicine & Infertility Associates

 = Transwestern deal

* = Portfolio Sale



MARKET INDICATORS

All Classes of Space | Q3 2023

SUBMARKET	INVENTORY SF	DIRECT AVAILABLE SF	DIRECT VACANT SF	SUBLEASE AVAILABLE SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	AVERAGE ASKING RENT, PSF (FSG)
MINNEAPOLIS CBD CORE	21,708,349	5,201,137	5,076,860	1,482,945	23.4%	29.0%	0	(117,775)	\$31.95
MINNEAPOLIS CBD EAST	1,024,664	251,773	166,702	59,477	16.3%	22.1%	0	(1,548)	\$27.61
MINNEAPOLIS CBD LORING	141,531	29,365	22,196	14,640	15.7%	26.0%	0	0	\$24.78
MINNEAPOLIS CBD NORTHEAST	2,810,470	498,331	472,795	74,792	16.8%	17.8%	0	1,328	\$26.77
MINNEAPOLIS CBD NORTH LOOP	2,383,116	451,062	465,013	180,468	19.5%	27.3%	345,927	34,231	\$32.78
MINNEAPOLIS CBD WAREHOUSE	1,893,873	457,182	472,384	102,996	24.9%	29.2%	0	(23,971)	\$25.95
MINNEAPOLIS CBD - TOTAL	29,962,003	6,888,850	6,675,950	1,915,318	22.3%	27.6%	345,927	(107,735)	\$29.81
NORTHEAST	9,328,888	1,215,712	1,382,318	69,026	13.9%	15.2%	11,242	(39,200)	\$22.90
NORTHWEST	4,375,312	837,079	742,476	145,199	14.8%	18.4%	56,752	(56,304)	\$24.87
SAINT PAUL CBD	7,503,462	1,447,026	1,260,701	159,807	16.8%	19.0%	0	14,901	\$22.75
SOUTHEAST	8,853,725	2,047,164	1,696,156	102,008	19.2%	20.0%	170,902	66,228	\$23.04
SOUTHWEST	17,510,876	3,447,255	2,651,768	917,643	15.1%	18.4%	123,660	(185,844)	\$27.73
WEST	10,381,159	1,880,611	1,852,038	292,128	17.8%	18.5%	35,666	37,629	\$34.22
SUBURBAN - TOTAL	50,449,960	9,427,821	8,324,756	1,526,004	16.5%	18.1%	398,222	(177,491)	\$26.45
TOTAL	87,915,425	17,763,697	16,261,407	3,601,129	18.5%	21.4%	816,616	(270,325)	\$26.90



MARKET INDICATORS

Class A | Q3 2023

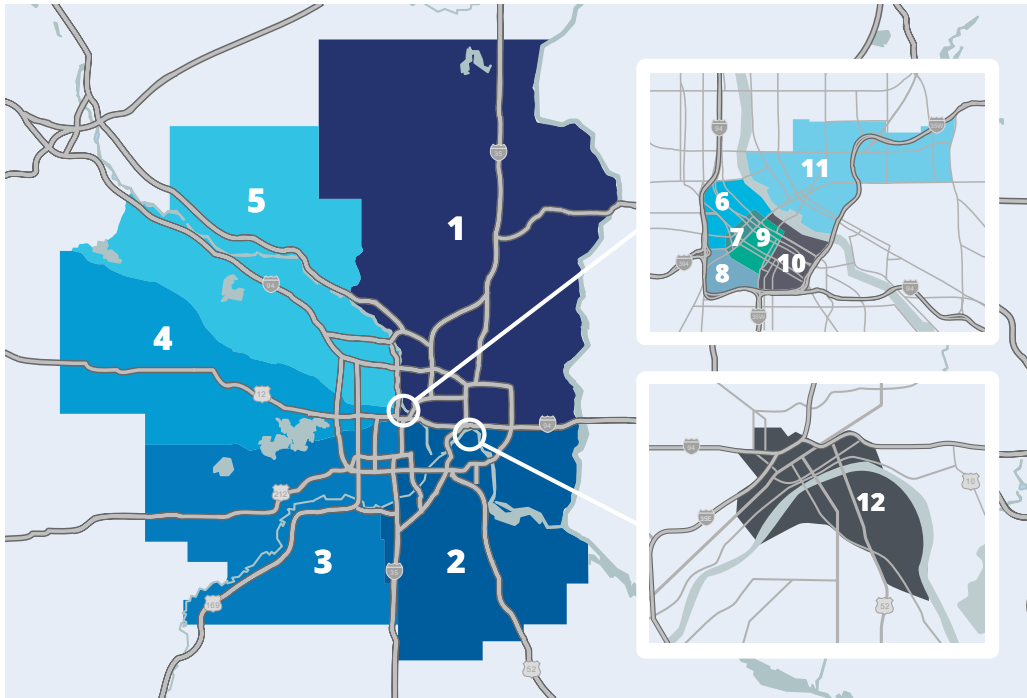
SUBMARKET	INVENTORY SF	DIRECT AVAILABLE SF	DIRECT VACANT SF	SUBLEASE AVAILABLE SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	NET ABSORPTION SF	AVERAGE ASKING RENT, PSF (FSG)
MINNEAPOLIS CBD CORE	15,558,512	3,464,384	3,464,384	1,245,715	21.0%	28.0%	(97,284)	\$37.00
MINNEAPOLIS CBD EAST	318,955	58,575	30,989	59,477	9.7%	28.4%	0	\$36.44
MINNEAPOLIS CBD LORING	0	0	0	0	N/A	N/A	N/A	N/A
MINNEAPOLIS CBD NORTHEAST	461,642	79,716	75,323	21,955	16.3%	20.4%	6,251	\$35.86
MINNEAPOLIS CBD NORTH LOOP	1,203,483	192,344	186,447	84,961	15.5%	21.0%	8,886	\$38.48
MINNEAPOLIS CBD WAREHOUSE	181,516	33,639	30,721	0	16.9%	16.9%	(9,303)	N/A
MINNEAPOLIS CBD - TOTAL	17,724,108	3,828,658	3,583,977	1,412,108	20.2%	27.6%	(91,450)	\$37.08
NORTHEAST	315,076	76,739	74,953	0	23.8%	23.8%	(285)	\$30.62
NORTHWEST	389,244	74,933	92,285	25,307	23.7%	29.8%	4,308	\$34.29
SAINT PAUL CBD	3,043,672	449,893	380,835	56,308	12.5%	14.4%	9,608	\$29.07
SOUTHEAST	1,663,133	600,444	263,628	27,171	15.9%	16.4%	(11,625)	\$30.19
SOUTHWEST	7,245,289	1,311,325	858,023	311,901	11.8%	14.8%	(38,004)	\$35.02
WEST	4,792,924	993,052	1,016,710	134,177	21.2%	21.4%	3,100	\$39.56
SUBURBAN - TOTAL	14,405,666	3,056,493	2,305,599	498,556	17.8%	17.8%	(42,506)	\$35.66
TOTAL	35,173,446	7,022,107	6,066,858	1,966,972	17.9%	22.0%	(124,348)	\$36.37



MARKET INDICATORS

Class B | Q3 2023

SUBMARKET	INVENTORY SF	DIRECT AVAILABLE SF	DIRECT VACANT SF	SUBLEASE AVAILABLE SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	NET ABSORPTION SF	AVERAGE ASKING RENT, PSF (FSG)
MINNEAPOLIS CBD CORE	5,538,161	1,617,751	1,665,251	237,230	30.1%	32.3%	(21,924)	\$26.83
MINNEAPOLIS CBD EAST	533,812	84,353	30,989	0	5.5%	5.5%	(1,548)	\$29.53
MINNEAPOLIS CBD LORING	114,683	29,365	22,196	14,640	19.4%	32.1%	0	\$24.78
MINNEAPOLIS CBD NORTHEAST	1,860,637	385,429	382,690	44,476	20.6%	20.7%	(4,113)	\$26.57
MINNEAPOLIS CBD NORTH LOOP	992,657	233,010	224,015	93,166	22.6%	34.6%	21,847	\$30.65
MINNEAPOLIS CBD WAREHOUSE	1,643,107	423,543	441,663	102,996	26.9%	31.7%	(14,668)	\$25.95
MINNEAPOLIS CBD - TOTAL	10,683,057	2,773,451	2,764,946	492,508	25.9%	29.1%	(20,406)	\$27.35
NORTHEAST	7,362,426	1,038,830	1,223,713	50,026	16.6%	17.1%	(34,817)	\$22.98
NORTHWEST	3,472,818	748,940	632,025	119,892	18.2%	19.3%	(65,422)	\$25.10
SAINT PAUL CBD	4,075,987	881,015	739,829	91,449	18.2%	20.4%	3,295	\$20.29
SOUTHEAST	5,792,094	1,129,921	1,244,091	74,837	21.5%	22.6%	50,378	\$23.15
SOUTHWEST	9,436,884	2,034,842	1,691,198	605,742	17.9%	21.7%	(146,626)	\$26.30
WEST	4,928,913	861,547	810,141	68,124	16.4%	17.2%	31,231	\$32.45
SUBURBAN - TOTAL	30,993,135	5,814,080	5,601,168	918,621	17.3%	19.8%	(177,491)	\$20.56
TOTAL	45,752,179	9,486,546	9,105,943	1,502,578	19.9%	22.0%	(182,367)	\$26.08



MINNEAPOLIS - SAINT PAUL OFFICE SUBMARKETS

- 1** Northeast
- 2** Southeast
- 3** Southwest
- 4** West
- 5** Northwest
- 6** Mpls CBD - North Loop
- 7** Mpls CBD - Warehouse
- 8** Mpls CBD - Loring
- 9** Mpls CBD - Core
- 10** Mpls CBD - East
- 11** Mpls CBD - Northeast
- 12** Saint Paul CBD

RESEARCH METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in the seven county Minneapolis-Saint Paul metropolitan area (Anoka, Carver, Dakota, Hennepin, Ramsey, Scott and Washington counties). This report includes multi-tenant properties 20,000 SF and larger, excluding condo and medical office facilities and those properties owned and occupied by a government agency.

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